Mythbusters!

What's up with Purchase Cards?

Commonwealth of Massachusetts CFO Conference
November 18, 2008

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MYTH: The Card is not right for our Organization
FACT:

- The Purchasing Card can help you streamline your purchasing and Accounts Payables if you answer "yes" to one or more of the following questions:
    - Do you have a large volume of small dollar purchases that are currently paid by check?
    - Do you need a reliable Web-based reporting tool to determine who is spending, where and how much?
    - Do you want to reduce expenses associated with order processing?
    - Do you need to monitor spending of funds against a project or a grant?
    - Would you like to improve cash flow?
    - Are you interested in a simple way to incorporate card payments and purchases into your Accounts Payable or ERP systems?

MYTH: There are no benefits with the Purchase Card.
FACT:

Savings

- **Commonwealth will earn rebates from issuer based on card spend.**
- **Pay up to 25 days after statement closing date for increased float.**
- **Leverage card-spend data to negotiate vendor discounts.**
- **Lower transaction processing costs.**
- **Gain hard- and soft-dollar savings when converting check payments to card.**

Efficiency

- **Prompt payment to vendors by acquiring bank.**
- **Use Web-based card program management and reporting tools.**
- **Make POS purchases quickly.**
- **Update accounting system in an automated manner.**
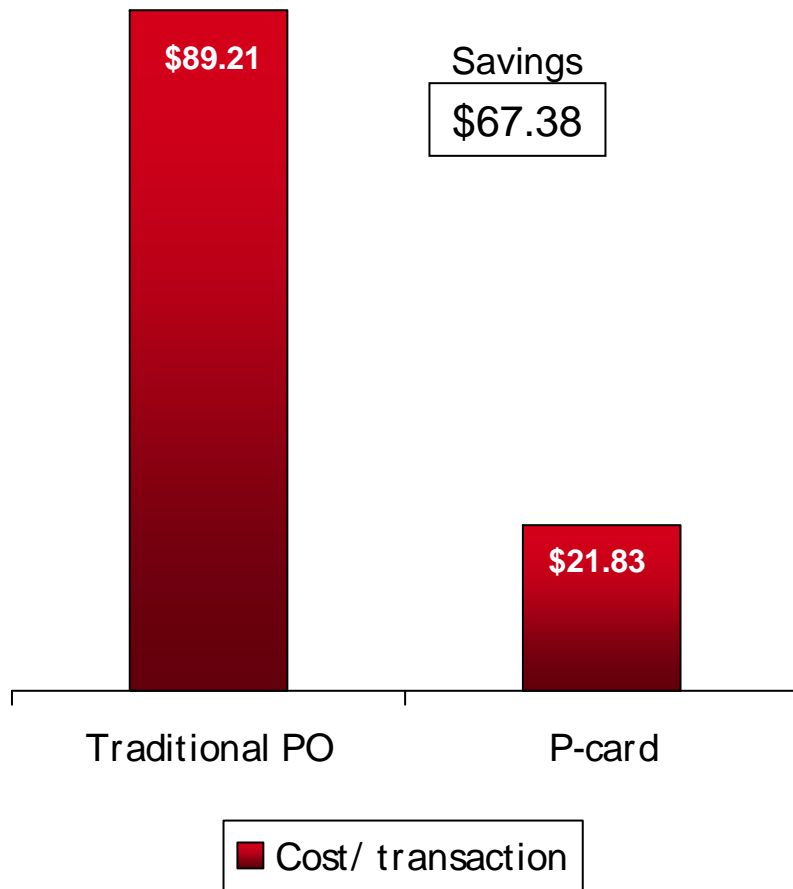- **Consolidate your cardholders' purchases into a single payment to the bank.**

Control

Prevent employee misuse by blocking merchants and instituting spending limits.

- **Gain enhanced transaction data reporting and visibility.**
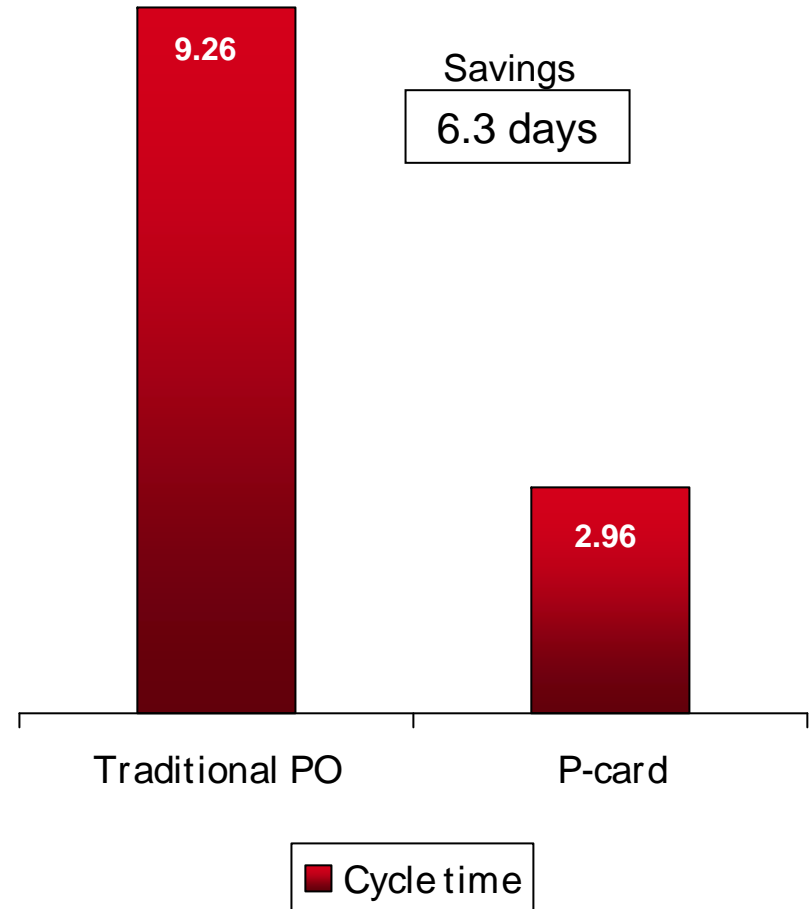- **Institute prepurchase controls for costly or sensitive purchases.**

MYTH: Cards do not offer any labor-saving benefits.
FACT:

Purchasing cards deliver savings of 76% over traditional purchase orders (POs).

Purchasing cards eliminate 6.3 days from the procure-to-pay process.

Left chart — Cost/transaction:
- Traditional PO: $89.21
- P-card: $21.83
- Savings: $67.38

Right chart — Cycle time:
- Traditional PO: 9.26
- P-card: 2.96
- Savings: 6.3 days

Legend (left): ■ Cost/ transaction

Legend (right): ■ Cycle time

Source: 2005 Purchasing Card Benchmark Survey Report by Richard J. Palmer and Mahendra Gupta

MYTH: Personnel benefits have not been realized.
FACT:

- MassPike – 2 FTE

- Impact of purchasing cards on Accounts Payable staffing needs

  – 63% respondents would need to hire additional AP personnel if the purchasing card program was eliminated.

No hiring of additional AP FTE needed	37%
Less than 1 additional AP FTE needed	3%
1 to 1.9 additional AP FTE needed	22%
2 to 2.9 additional AP FTE needed	13%
3 to 4.9 additional AP FTE needed	12%
5 or more additional AP FTE needed	13%

63%

- **Question:** Estimate the number of additional Accounts Payable personnel that you would need to hire if the purchasing card program is completely eliminated.

Source: 2005 Purchasing Card Benchmark Survey Report by Richard J. Palmer and Mahendra Gupta

MYTH: Loss of information in negotiating vendor terms. FACT:

- Number of suppliers
  - Purchasing card usage resulted in a 31% reduction in number of suppliers in AP Master file.

- Vendor discounts
  - A quarter of other organizations using purchasing cards employ purchasing card data in discount negotiations with suppliers.
    - Of these, 25% obtain card data-generated discounts equal to 2% or more of purchasing card spending.

Source: 2005 Purchasing Card Benchmark Survey Report by Richard J. Palmer and Mahendra Gupta
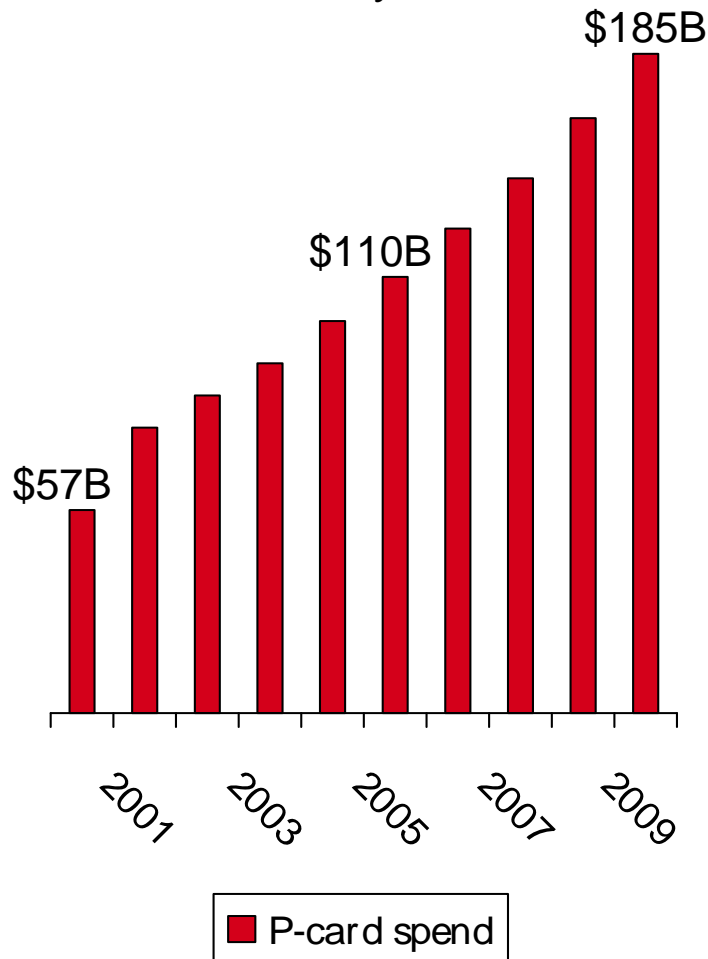
MYTH: Cards can be abused – unauthorized purchases
FACT:

- Merchant codes can be restricted

- Individual transactions can be authorized

- Periodic spending limits can be established

MYTH: Purchase cards have not caught on as a payment mechanism.
FACT: (with Commonwealth experience 15-20%))

Purchasing card spending is expected to reach $185 billion by 2010.
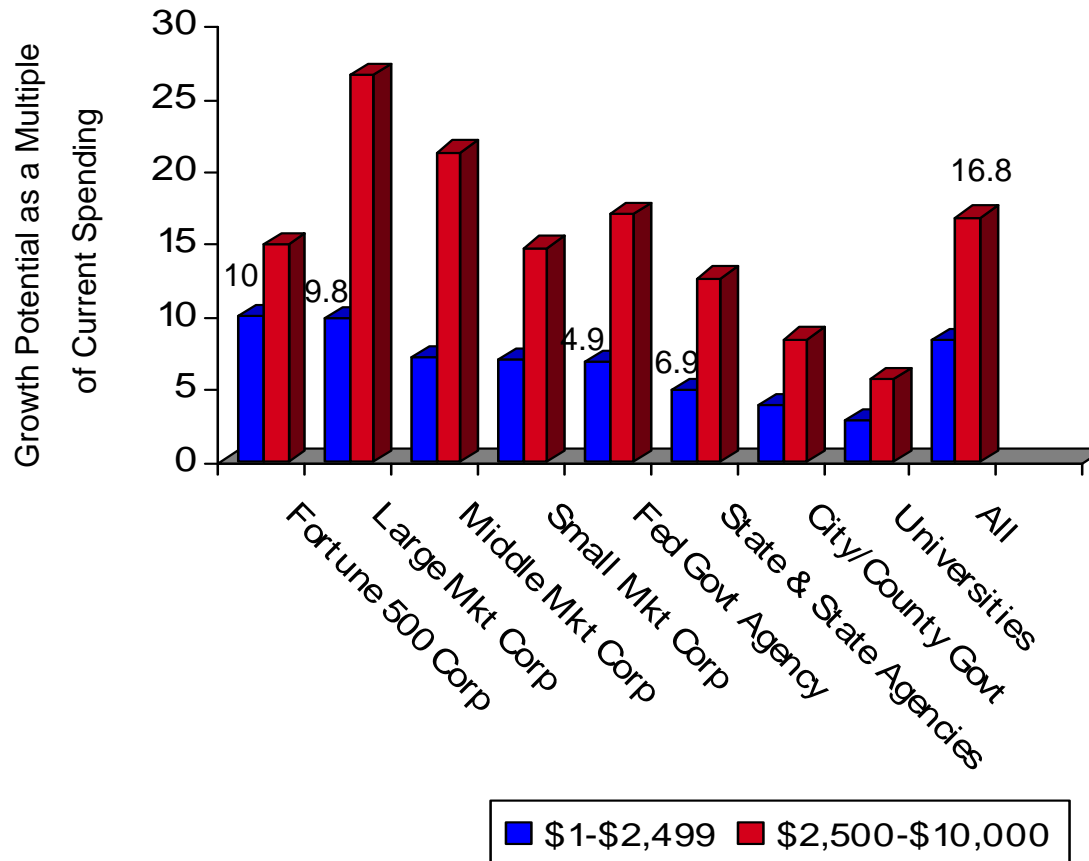

Evolution of spend categories

Traditional	New
Maintenance, Repair and Operating	Travel
Office products	Temp services
Computers and peripherals	Professional services
Miscellaneous goods	Transportation
	Delivery
	Utilities
	Lease and rent
	Inventory
	Capital assets

MYTH: No potential for spending in my organization.
FACT:

- Potential for increased spending on under $2,500 and under $10,000 transactions, by group

Growth Potential as a Multiple of Current Spending vs. groups: Fortune 500 Corp, Large Mkt Corp, Middle Mkt Corp, Small Mkt Corp, Fed Govt Agency, State & State Agencies, City/County Govt, Universities, All

Labeled values: 10, 9.8, 4.9, 6.9, 16.8

Legend: ■ $1-$2,499 ■ $2,500-$10,000

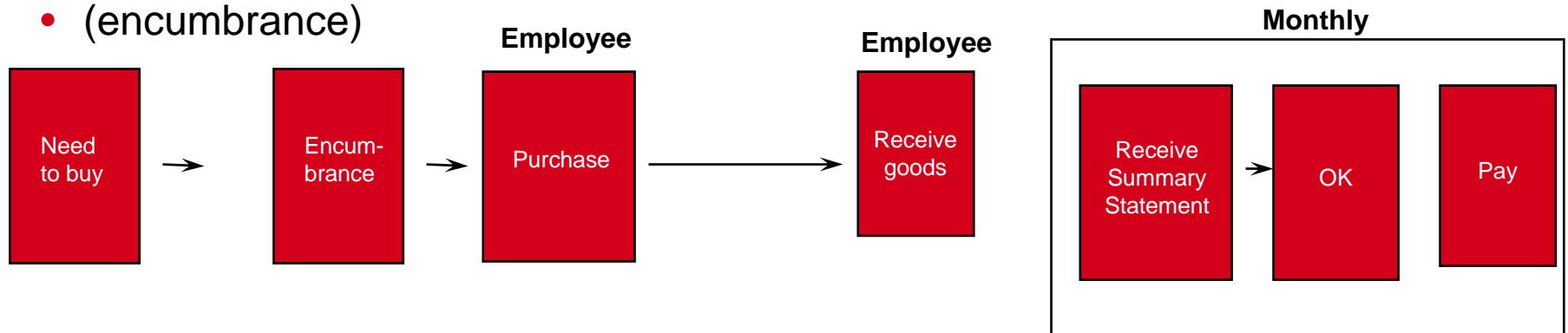Source: 2005 Purchasing Card Benchmark Survey Report by Richard J. Palmer and Mahendra Gupta

Purchase cards do not reduce steps in the process.

- Traditional purchase order process costs approx. $90 and takes 9 days to fulfill.
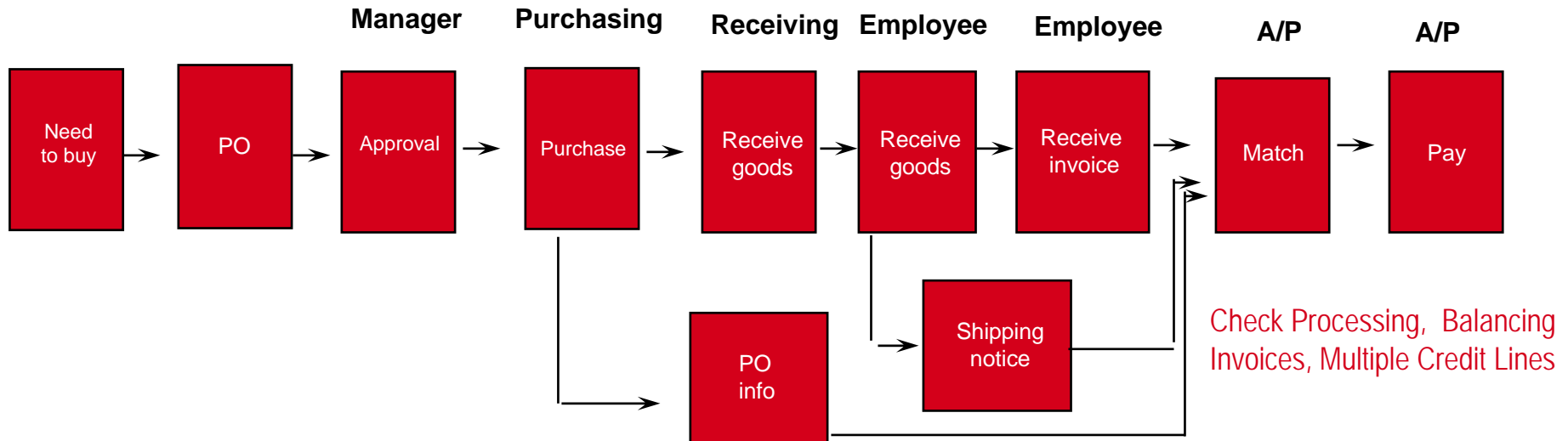
- Typical purchasing card process costs approx. $21 and takes 3 days to fulfill.
- (encumbrance)

MYTH: Individual cards may not be secure.
FACT:

- Card Activation – Customer should call the Customer Call Center to activate the card, prior to the first use of a new card. A four-digit activation code is assigned to the card and verification is required through the Voice Response Unit (VRU) or by speaking directly to an associate.

- Card Expiration Date - The expiration date should be compared with the expiration date in our system to verify validity of the card.

- Card Verification Value - Embedded in the magnetic stripe of each card is a value that must be present in order for the card to be recognized. If this value is missing the transaction will be declined or referred.

- Physical Card Features – To reduce the possibility of complete card reproduction, provider should emboss certain card control characters and a hologram on its card.

- No personal liability to the cardholder for lost or stolen card.

- No confidential information from the cardholder is required.

MYTH: Functions are not robust enough.
FACT:

- Purchase card systems should deliver the following capabilities:
    - Manage cards in real time
    - View statements online
    - Issue declining balance charge cards and zero dollar charge cards
    - Capture enhanced POS data required for auditing, tax reporting, cost allocation and G/L interfacing
    - Enforce corporate and individual spending policies
        - Block or specify merchants using Merchant Category Codes (MCC)
        - Impose single transaction limits, daily/weekly/monthly spending limits
    - Create standard and ad hoc reports

Functions continued.

- Accounting support
  - Ability to monitor spending towards special-purpose projects through Spend Monitor
- Active Card Control
  - Ability to offer zero-dollar cards for optimized control
  - Increase/decrease funds on card, disable cards in real time
- Automate payables
  - Settlement of larger payments that require more controls/ approvals and a clearer audit trail with a purchasing card by linking it to the AP functionality

Other Card Features

- *Billing and payment* – Central bill and central pay
- *Branding* – Visa® or MasterCard®-branded, company-branded marks
- *Green Statements* – on-line
- *Payment options* – ACH debit or credit, EDI or wire
- *Additional benefits*
  - Lost or stolen card replacement
  - Dedicated 24/7 customer service
- Use as a Disaster Recovery Card!

MYTH: No/little financial incentives to use Cards.
FACT:

- Rebate is a function of transaction volume, cycle days and grace days.
  - It is in direct correlation with transaction volume and inversely related to cycle days and grace days.
  - Bank of America clients have earned as much as $3.5M by putting greater spend on card.
- Rebate is expressed in basis points.
- Payment of rebate is usually made by ACH credit within 90 days following the end of the calculation period.

- **Commonwealth should expect a 1% rebate on $100 million spend ($1 million!)**

- **Billing cycles and grace periods can add up to 55 days of float!**

Possibility: Green Initiative

- Bank of America may partner with Brighter Planet

    – **Green projects**

    – **Carbon credits instead of rebate**

    – **Back to individual organizational units**

    – **Feedback please?**

WRAP UP